

UB Finance PLC

Key Rating Drivers

Support-Driven Rating: The rating of UB Finance PLC (UBF) reflects Fitch Ratings' expectation that the parent, Union Bank of Colombo PLC (UB, BBB-(lka)/Negative), would extend extraordinary support to UBF, if needed. This assessment is underpinned by UB's 89.9% ownership of UBF, a history of ordinary support, board involvement and close brand alignment. The Negative Outlook on UBF's rating mirrors that on the parent.

Limited Role in Group: UBF's limited importance within the UB group is reflected in its rating, which is two notches below that of UB. We view minimal overlap between UBF and UB's target customer profiles, given the financial subsidiary's closer focus on underbanked and high-yielding customer segments through leases and gold loans (financial year ended March 2024 (FY24): 5.5% of group loans). UBF's contribution to group earnings is moderate at around 9%.

Furthermore, UBF operates with notable management independence in day-to-day matters, albeit with oversight from UB's board-level representatives.

Relative Size Constraints Rating: UBF's rating is constrained by our view that any support required may be more material relative to UB's modest balance-sheet size compared with other Fitch-rated financial leasing companies owned by larger banks. UB's smaller capital base also limits the amount of funding it can provide due to tightening single-borrower limits. UBF's assets represented 7% and 15%, respectively, of UB's consolidated assets and equity at end-2024. UBF reported moderate parental borrowing historically.

Standalone Profile Still Weak: We believe UBF's intrinsic credit profile is weaker than its support-driven rating, due to its riskier lending base and small franchise with less than 1% of finance and leasing sector assets. UBF's higher-risk profile, evolving risk controls, limited absolute capital buffer relative to the regulatory minimum, and a concentrated funding mix weigh on its overall credit profile despite some improvement in asset quality and earnings metrics in recent periods.

Modestly Improving Profitability: UBF has returned to profitability since FY24 (pretax income/average assets: 1.2% in 9MFY25, FY24: 1.3%, FY23: -0.7), supported by moderating credit costs (credit costs/pre-impairment operating profit: 33% in 9MFY25, FY24: 20%, FY23: 133%). We expect UBF's earnings to improve alongside declining interest rates that benefit borrower repayment capacity and credit growth. That said, its earnings record has been more volatile than most rated peers.

Reducing Asset Quality Stresses: The company's gross stage 3 (impaired) loans ratio improved to 20.4% by end-1H FY25 (FY24: 26.1%, FY23: 32.5%) as impaired loans fell notably, reflecting UBF's focused recovery efforts. Despite the improvement, UBF's delinquency ratio remains above the 12.0% industry average. We expect further improvements to loan quality in the near to medium term as recoveries continue and the loan book expands.

Leverage to Pick up: We expect UBF's debt/tangible equity to rise from its current 2.6x (FY24: 2.8x) alongside expected loan growth. UBF now meets the LKR2.5 billion minimum regulatory capital requirement post the successful capital raising in June 2024. We expect UBF's Tier 1 capital ratio to moderate in the near to medium term (3QFY25: 29.8%, FY24: 30.5%), due to the expanding loan book, but to remain above minimum regulatory requirements.

Fitch estimates that residual credit risk on capital, as reflected in net impaired loan exposure relative to tangible equity, has significantly decreased in recent months (FY24: 49%, FY23: 79%) due to improving asset quality and coverage metrics.

Non-Bank Financial Institutions Finance & Leasing Companies Sri Lanka

Ratings

National Rating

National Long-Term Rating BB(lka)

Sovereign Risk

Long-Term Foreign-Currency IDR CCC+

Long-Term Local-Currency IDR CCC+

Country Ceiling B-

Outlook

National Long-Term Rating Negative

Applicable Criteria

[National Scale Rating Criteria \(December 2020\)](#)

[Non-Bank Financial Institutions Rating Criteria \(January 2025\)](#)

Related Research

[Fitch Upgrades 10 Sri Lankan NBFIs' Ratings, Affirms 8 Following National Scale Recalibration \(January 2025\)](#)

[APAC Emerging-Market Finance and Leasing Companies Outlook 2025 \(November 2024\)](#)

[Economic Recovery Drives Sri Lankan Finance and Leasing Companies Growth \(October 2024\)](#)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

UBF's rating is sensitive to changes in UB's credit profile, as reflected in UB's National Long-Term Rating as well as Fitch's opinion of UB's ability and propensity to extend timely extraordinary support. Factors that could drive negative action include:

- a downgrade of UB's National Long-Term Rating;
- an increase in UBF's size relative to UB that makes extraordinary support more onerous;
- a reduction in the parent's ownership, control or influence that could weaken its propensity to support UBF;
- prolonged weak performance of UBF that we believe will weaken the parent's propensity to support the subsidiary;
- a notable decline in UBF's capital buffers, indicating reduced timeliness in financial support.

These developments could significantly reduce shareholder support prospects and, if severe, may lead to a multi-notch downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

There is limited scope for upward rating action, given the Negative Outlook. We are likely to revise the Outlook to Stable if the Outlook on the parent bank is revised to Stable.

An upgrade would most likely result from positive rating action on UB's National Long-Term Rating, which would reflect its strengthened ability to support UBF.

A significant increase in UBF's strategic importance to UB and closer integration with UB across broader functional areas may lead to positive rating action. However, we do not expect such a change in the near term.

Financials

Income Statement

	31 Dec 24		31 Mar 24	31 Mar 23	31 Mar 22
	9 months - 3rd quarter (USDm)	9 months - 3rd quarter (LKRm)	Year end (LKRm)	Year end (LKRm)	Year end (LKRm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Revenue					
Total gross operating revenues	5	1,578.39	2,256.99	2,078.77	1,583.48
Interest income on loans	4	1,217.86	1,749.71	1,875.81	1,497.27
Other interest income	1	240.42	393.05	137.55	25.06
Total interest expense	3	849.92	1,372.88	1,259.58	667.06
Total net operating revenues	2	728.47	884.11	819.19	916.42
Memo: net interest income	2	608.37	769.88	753.77	855.26
Expenses					
Total operating expenses	2	585.12	711.50	596.35	460.39
Pre-impairment/provision operating profit	0	143.35	172.62	222.83	456.03
Impairment charges (reversals) on loans & finance leases	0	44.68	24.33	266.94	223.98
Securities and other credit impairment charges	0	3.04	10.58	30.48	10.69
Operating profit	0	95.64	137.71	-74.58	221.37
Pre-tax income	0	95.64	139.21	-73.80	224.62
Net income (incl. non-controlling interests)	0	0.59	1.47	-113.45	81.12
Fitch comprehensive income	0	0.59	54.99	-116.63	84.92
Exchange rate		USD1 = LKR292.5833	USD1 = LKR300.441	USD1 = LKR327.2857	USD1 = LKR293.8716

Source: Fitch Ratings, Fitch Solutions, UBF

Balance Sheet

	31 Dec 24		31 Mar 24	31 Mar 23	31 Mar 22
	9 months - 3rd quarter (USDm)	9 months - 3rd quarter (LKRm)	Year end (LKRm)	Year end (LKRm)	Year end (LKRm)
Assets					
Loans and leases					
Gross loans & finance leases	n.a.	n.a.	8,696.46	9,026.64	9,338.06
Less: loss allowances for loans, leases and receivables	n.a.	n.a.	935.80	937.69	705.39
Net loans and finance leases	31	8,979.33	7,760.66	8,088.94	8,632.68
Total interest earning assets	34	10,021.47	9,923.00	8,958.86	9,301.00
Total assets	39	11,433.36	10,967.17	10,106.52	10,082.76
Liabilities and equity					
Debt and deposits					
Total customer deposits	24	6,899.46	7,527.53	6,508.96	4,892.14
Total borrowings	3	944.36	20.74	496.52	2,021.83
Total debt and deposits	27	7,843.82	7,548.28	7,005.48	6,913.97
Total liabilities	29	8,373.82	8,162.51	7,411.85	7,271.45
Total equity excl. hybrid capital accounted for as equity	10	3,059.53	2,804.66	2,694.68	2,811.31
Total equity	10	3,059.53	2,804.66	2,694.68	2,811.31
Total liabilities and equity	39	11,433.36	10,967.17	10,106.52	10,082.76
Exchange rate		USD1 = LKR292.5833	USD1 = LKR300.441	USD1 = KR327.2857	USD1 = LKR293.8716

Source: Fitch Ratings, Fitch Solutions, UBF

Summary Analytics

	31 Dec 24 9 months - 3rd quarter	31 Mar 24 Year end	31 Mar 23 Year end	31 Mar 22 Year end
Asset quality ratios (%)				
Impaired loans & finance leases/gross loans & finance leases	n.a.	26.1	32.5	21.1
Growth of gross loans & finance leases YoY	n.a.	-3.7	-3.3	24.7
Loss allowances/impaired loans & finance leases	n.a.	41.2	32.0	35.9
Impaired loans & finance leases less loss allowances/tangible equity	n.a.	48.8	78.6	47.5
Earnings and profitability ratios (%)				
Pre-tax income/average assets	1.2	1.3	-0.7	2.5
Operating expenses/total net revenue	80.3	80.5	72.8	50.2
Pre-tax income/average equity	4.3	5.1	-2.7	12.6
Impairment charges/pre-impairment op. Profit	33.3	20.2	133.5	51.5
Capitalisation and leverage ratios (% unless stated otherwise)				
(Debt + deposits)/tangible equity (x)	2.6	2.8	2.8	2.6
Tangible equity/tangible assets	26.3	25.1	25.5	26.7
Tier-1 capital ratio	29.8	30.5	31.1	29.4
Total capital ratio	29.8	30.5	31.1	29.4
Funding, liquidity and coverage ratios (% unless stated otherwise)				
Unsecured debt/(total debt + deposits)	n.a.	99.7	92.9	70.8
(Short-term debt + deposits)/(total debt + deposits)	n.a.	56.1	69.6	83.9
Gross loans/deposits	n.a.	115.5	138.7	190.9

Source: Fitch Ratings, UBF

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